

UMUZIWABANTU MUNICIPALITY



DRAFT CREDIT CONTROL AND DEBT COLLECTION POLICY

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1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act No. 56 of 2003 and other related legislations/Regulations, has the same meaning as in that Act.

“Credit Control refers” to all the functions relating to the collection of monies owed by the debtors and customers of the Municipality.

“Customer Care and Management - Customer care” is defined as identifying and meeting customer needs and expectations. Customer management means the focusing on the consumer’s needs in a response and proactive way to encourage payment, thereby limiting the need for enforcement. Customer management is ensuring that customers understand the Municipality’s service delivery and what the municipality expects from them in turn and the recourse both the Municipality and the consumer have if expectations are not met. Customers must, whenever possible, be addressed in a language they understand.

“Debt Collection” Collection of all money’s owed to the Municipality is compulsory. However, debt collection must take place in accordance with this policy, which must be consistent with the Municipality’s tariff policy (S96 of Municipal Systems Act).

“Child headed household” A household where both parents are deceased and where all occupants of the property are children of the deceased, and are all under the legal age to contract for services and are considered as minors in law by the state.

“Sundry Debtors” include debtors such as office leases, town land leases, sale of the Municipal properties, encroachments and accounts for any other services

2. INTRODUCTION

2.1. It is vital to the long-term financial viability of any municipality that it collects the revenues (such as levies, tariffs, rates and taxes) due to it for services rendered. In terms of section 96 of the Local Government Municipal Systems Act 2000, a municipality:

2.1.1 Must collect all money that is due and payable to it, subject to this the Municipal Finance Management Act(MFMA) and any other applicable legislation; and

- 2.1.2 For this purpose, the Municipality must adopt, maintain and implement a credit control and debt control policy, which is consistent with rates and tariff policies and complies with the provisions of the MFMA.
- 2.2. This means that the appropriate credit control and debtors mechanisms must be maintained.

3. OBJECTIVE

The objective of this policy is to define a framework within which effective procedures could be developed to identify defaulters, and ensure that their failure to meet their financial obligations towards the Council would be treated in a consistent, fair and effective manner.

4. FACTORS THAT AFFECT THE IMPLEMENTATION OF A FULL CREDIT CONTROL SYSTEM

- 4.1 Lack of administrative capacity to implement credit control within municipalities.
- 4.2 Lack of political support and commitment from Municipal councillors.
- 4.3 Poor and inefficient accounting systems adopted by some municipalities resulting in inaccurate financial reports and incorrect statements.
- 4.4 Lack of financial resources throughout the payment collection system.
- 4.5 Insufficient customers pay points.

5. CONSUMER CARE AND MANAGEMENT

- 5.1 In relation to the levying of rates and other taxes by a municipality and the charging of fees for municipal services, a municipality must, within its financial and administrative capacity-
- (a) establish a sound customer management system that aims to create a positive and reciprocal relationship between persons liable for these payments and the municipality, and where applicable, a service provider,
 - (b) establish mechanisms for users of services and ratepayers to give feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider;
 - (c) take reasonable steps to ensure that users of services are informed of the costs involved in service provision, the reasons for the payment of service fees, and the manner in which monies raised from the service are utilised;
 - (d) where the consumption of services has to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems;
 - (e) ensure that persons liable for payments, receive regular and accurate

accounts that indicate the basis for calculating the amounts due;
(f) provide accessible mechanisms for those persons to query or verify accounts and metered consumption, and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts;
(g) provide accessible mechanisms for dealing with complaints from such persons, together with prompt replies and corrective action by the municipality;
(h) provide mechanisms to monitor the response time and efficiency in complying with paragraph (g); and
(i) provide accessible pay points and other mechanisms for settling accounts or for making pre-payments for services.

6. CREDIT CONTROL PRINCIPLES

6.1 Credit control is the last step in ensuring payment for services rendered and the following principles must be considered.

6.1.1 Enforcement in a local matter subject only to relevant legislation.

6.1.2 The Municipal Manager, who is entrusted with the determination and exaction of credit control measures', must report to Council on the implementation of this Policy.

6.1.3 Enforcement and policy making must be independent to ensure accountability.

6.1.4 Credit control measures must be understandable, uniform, fair and consistently applied.

6.1.5 Credit control must be effective, efficient and economical.

6.1.6 The credit control measures must be sustainable in the long- term.

6.1.7 A proper indigence policy must be in place.

7. CONTENT OF THIS POLICY

In terms of section 97(1) of the Municipal Systems Act, No 32 of 2000, this policy must provide for:-

- a) Credit control procedures and mechanisms;
- b) Debt collection procedures and mechanisms;
- c) Provisions for indigent debtors that is consistent with its Rates and Tariff policies and any national policy for indigents;
- d) Realistic targets with:

- i) Generally recognised accounting practices and collection ratios; and
 - ii) the estimate of income set in the budget less an acceptable provision for bad debts;
 - iii) Interest on arrears, where appropriate;
 - iv) Extensions of time for payment of accounts;
 - v) Termination of services or the restriction of the provision of services when payments are in arrears;
 - vi) Matters relating to unauthorised consumption of services, theft and damages; and
 - vii) Any other matters that may be prescribed by regulation in terms of section 104 of the Local Government Municipal Systems Act, 2000.
- e) This policy may differentiate between different categories of ratepayers, users of services, debtors, tax services, service standards and other matters as long as differentiation does not amount to unfair discrimination.
- f) The result of an effective policy would improve the recovery rate of the Council's debtors and would contribute to the realisation of the Constitutional objective of providing basic services for human dignity.

8 RESPONSIBILITY/ACCOUNTABILITY

In terms of section 99 of the Municipal Systems Act, no 32 of 2000, a municipality' executive committee or executive mayor, if a municipality does not have an executive committee or executive mayor, the Municipal council itself of a committee appointed by it, as the supervisory authority must:-

- a) Oversee and monitor:-
 - i) The implementation and enforcement of this Policy and any by laws enacted in terms of section 98; and
 - ii) The performance of the Municipal Manager in implementing the policy and any bylaws;
- b) When necessary, evaluate or review this policy and any bylaws, or the implementation of this policy and any such bylaws, in order to improve efficiency of its credit control and debt collection mechanisms processes and procedures; and

- c) At such intervals as may be determined by the Council report to a meeting of the council, except when the Council itself performs the duties mentioned in paragraphs (a) and (b)
- d) In terms of section 100 (a) of the municipal systems act, no 32 of 2000, the municipal manager must implement and enforce the municipality's Credit Control and Debt Collection policy.
- e) In terms of section 100 (c) the municipal manager must at such intervals as may be determined by the Municipal council report the prescribed particulars to a meeting of the executive committee.
- f) The communication of this Policy to the community is the joint responsibility of the Councillors, Municipal Manager and municipal officials.
- g) In terms of section 11(c) of Schedule 1 of the Municipal systems act no 32 of 2000, a Councillor may not obstruct or attempt to obstruct the municipal manager or any employee of the council to implement and enforce the municipality's credit control and debt collection policy.

9 GENERAL RATES DEBTORS

Raised and collected in accordance with the provisions of the Local Government: Municipal Property Rates Act no 6 of 2004.

9.1 Credit Control Procedures and Mechanisms

- 9.1.1 In terms of section 2 of the Municipal Property Rate Act (MPRA) no 6 of 2004, the Council shall have power **once in every financial year to assess and levy general rate** upon immovable property.
- 9.1.2 In terms of section 105 (1)(a), the Council shall publish in a newspaper a notice containing an abstract of estimates of revenue and expenditure (including capital expenditure) **and stating the amounts at which such rates have been assessed.**
- 9.1.3 In terms of section 26 of MPRA no6 of 2004 the Council must recover rates:-
 - i) On a monthly basis or less often as may be prescribed in term Of MFMA; or

- ii) Annually, as may be agreed to with the owner of the property.

9.1.4 Rates are payable on or before the date determined by Council.

9.1.5 Accounts to be furnished, to each person liable for the payment of rate with a written statement of account specifying:-

- i) the amount due for rates payable,
- ii) the date on or before which the amount is payable;
- iii) how the amount was calculated,
- iv) the market value of the property;
- v) if the property is subject to any compulsory phasing in discount in terms of section 21, the amount of the discount; and
- vi) if the property is subject to any additional rate in terms of section 22, the amount due for additional rates.

9.2 Debt Collection Procedures and Mechanisms

9.2.1 Arrears Owed for General Rates

- a) Interest is charged and is calculated at the market related rate in respect of any rates remaining unpaid after the final date of payment.
- b) If rates are in arrears for more than 90 days, a letter of demand stating that failure to settle the account on or before the end of the following month the consequences must be as follows:-
 - i) The outstanding account must be handed over to Council's attorneys for collection.
 - ii) The debtor must be liable for any legal costs incurred.
 - iii) As a result of non payment properties may be executed.

9.2.2 Provision for Indigent Debtors

- a) rebate for pensioners and Indigent citizens are subject to certain conditions as stipulated in the Umuziwabantu Indigent Support policy section 5

9.2.3 Extension of Time for Payment

- a) A debtor who is in default can approach the Chief Financial Officer, and make acceptable arrangements in writing for the extension of time for payment, on the condition that penalties continue to accrue until the full outstanding account is settled.

- b) When a debtor fails to comply with the terms of the agreement providing for an extension of payment, then the total amounts due shall become payable without further notice, or handed over to the Council attorneys for collection.

10 CONSUMER DEBTORS (ELECTRICITY AND REFUSE)

10.1 Credit Control Procedures and Mechanisms

10.1.1 Application for service (Service Agreement)

The application form for services is a contract. No person shall be entitled to use services for the Municipality unless or until such person entered into an agreement in writing with the Municipality for services and such agreements together with the provisions of the relevant bylaws shall in all respects govern such services. To ensure sustainability of credible customer data and revenue protection the Council will only open account in the name of the owners.

10.1.2 Deposits

The Municipality reserve the right to require the consumer to deposit a sum of money or to provide a bank guarantee as security in payments of charges which are due or may become due to the Municipality. Such deposit shall not be regarded as being payment or part payment of any accounts due for the supply of service.

10.1.2.1 The deposit must be equal to two and a half months average consumption and the basic charge, per consumer, for each applicable service.

10.1.2.2 Deposits of new business and industrial customers must be reassessed three months after the initial deposit date.

- a) All business and industrial deposits may be reviewed annually.
- b) On cessation of the services, the amount of such deposit, less any payments due to the Municipality shall be refunded to the customers.
- c) When services are terminated due to non payment, the deposit must be reviewed and might be increased at the discretion of the Chief Financial Officer.

- d) The total sum of deposits received shall constitute a short term liability in the books of the Municipality. No interest shall accrue in favour of the depositor's thereof.

10.1.3 Payment of Charges

10.1.3.1 Monthly accounts to be rendered to consumers for the amount due and payable on the last working day of the calendar month.

10.1.3.2 Accounts must show the following:

- a) The consumption or estimated consumption within a specified period,
- b) The applicable tariff,
- c) The amount due and payable,
- d) The amount in arrears, if any,
- e) The final date of payment, and
- f) The method, name and location of any authorised agents where payments may be made.

10.1.3.3 Method of Payment and Payment Points

Payments must be made as follows:-

- Municipality's cash office or
- Municipality's primary bank account

10.1.3.4 An error or omission in any account or failure to provide an account statement shall not relieve the consumer of his or her obligation to pay the correct amount due for services supplied to the premises.

10.1.3.5 the consumer must satisfy himself or herself that the account statement provided is in accordance with the prescribed tariff of charges in respect of services supplied to the premises.

10.1.4 Reading of Conventional Meters

10.1.4.1 Conventional meters shall normally be read at intervals of one month and the fixed or minimum charges due in terms of the tariff shall be assessed accordingly.

10.1.4.2 When the conventional meters cannot be read, the Municipality may render an estimated account which shall be adjusted in a subsequent account in accordance with the actual readings taken.

10.1.4.3 When calculating, reading or metering error is discovered in respect of any account provided to a consumer, the error shall be corrected in subsequent accounts. Any such correction shall only apply in respect of accounts for a period of three years pre-ceding the date on which the error in the accounts was discovered. Such accounts shall be free of interest up to the date on which the correction is found to be necessary, and shall be based on the actual tariffs applicable during the period.

10.1.4.4 On payment for the disconnected services Council must reconnect within 24 hours.

10.1.4.5 If disconnected 3 times or more in a 6 months period, the municipality must convert the conventional meter and prepaid meter must be installed at the property owner's expense.

10.1.5 Pre-Paid Electricity

10.1.5.1 No electricity must be sold if the debtor does not produce the electricity meter card identification.

10.1.5.2 No electricity must be sold if the debtor is in arrears with the Refuse account.

10.1.6 Finalisation of Accounts

10.1.6.1 The final account is payable within **30 days** after the account has been finalised.

10.2 Debt Collection Procedures and Mechanisms

a) After 30 days, when a final account or an active account where all services have been disconnected, remains unpaid, a final demand must be forwarded to the last known postal address.

b) If no reaction is received on the final demand after another 30 days, the account is handed over to the Council attorneys for collection.

c) If a handover account reaches the 90 day outstanding mark, the Council attorneys must submit a report indicating the reasons why the account is still not settled.

d) In a case of doubtful debts, the Chief Financial Officer (CFO) must approach the Council, to consider the writing off the amount against the Bad debts Provision provided for in the Financial Statements.

- e) Building Plans will not be approved for property owners who have outstanding municipal accounts.
- f) Business Licences will not be granted to those who have outstanding municipal account

10.2.1 Provision for Indigent Debtors

10.2.1.1 All indigent households must receive first free 50Kwh every month.

10.2.2 Extensions of Time of Payment

- 10.2.2.1 A debtor who is in default can approach the CFO and make suitable and acceptable arrangements in writing for the extension of time of payment.
 - 10.2.2.2 If the overdue amount is outstanding for longer than 12 months, a minimum down payment of 50% shall be payable and the repayment period shall not exceed 12 months.
 - 10.2.2.3 If the overdue amount is outstanding for less than 6 months, a minimum down payment of 25% shall be payable and the repayment period shall not exceed 6 months.
 - 10.2.2.4 If the conditions as agreed to are not adhered to, a normal credit control procedures must be implemented.
 - 10.2.2.5 All future current accounts must be paid on the due dates, together with arrears arrangements.
- #### 10.2.3 Termination of Services
- 10.2.3.1 Payments must reach the office of Financial Services on or before the due dates following month for which the accounts were rendered.
 - 10.2.3.2 If the account remains unpaid after the due dates, a penalty for late payment must be raised and services disconnected as soon as practicable possible after the due dates.
 - 10.2.3.3 A notice that the service will be cut off must be delivered when doing the cut off.

10.2.3.4 After disconnection for non-payment of an account or contravention of any bylaws, the prescribed fees and any amounts due for services shall be made before the reconnection is done.

11 **PROPERTY RATES AND CONSOLIDATED BILLING**

11.1 In terms of section 102 (1) of the Municipal Systems Act, 2000(Act No.32 of 2000), the Municipality may consolidate any separate accounts of persons who are liable for payment to the municipality, into one consolidated account.

11.2 **Allocation of part-payments**

11.2.1 If an account holder pays part of any Municipal account due, the Municipal Manager shall allocate such payment as follows:

- a) Firstly, to any unpaid charges levied by the Municipality in respect of notices, legal expenses and reconnections or reinstatements of services in respect of the account or property concerned,
- b) Secondly, to any unpaid interest on the account,
- c) Thirdly, to any unpaid refuse collection charges,
- d) Fourthly, to any unpaid property rates,
- e) Lastly, to any unpaid electricity charges.

11.2.2 In the event of an account holder's defaulting on the payment of an arrear account, the Municipal Manager shall use the account holders to defray any cost incurred by the Municipality in the same sequence that is applicable to the allocation of part payments, as contemplated in paragraph 10.2.1.

12. **UNAUTHORISED CONSUMPTION AND THEFT DAMAGES**

12.1 In a case of illegal connection of tempering, a fine for tempering with installation as determined by the Council must be imposed.

12.2 Where any electricity meter, supply or service mains, main fuse or other electricity apparatus of the Council or its seals have in any way, been tampered with the meter, if it is not a prepaid meter, must be replaced by a pre paid meter at the cost of the owner or occupier.

12.3 Where a prepaid meter has been tampered with, the electricity supply to the property must be disconnected until the owner/occupier has paid for a new prepaid meter, tampering cost as well as the outstanding arrears on the account.

- 12.4 In cases where the tampering has resulted in the metering recording less readings than the true consumption, the Finance department shall have to recover from the consumer the full cost of his estimated consumption.
- 12.5 Accounts which have had the services disconnected and are not reconnected within a reasonable period are to be checked for illegal connections. The meter must be checked within three days, and if the meter has been reconnected, the supply must be cut at low voltage (Lv) connection point (Pole or underground connection).
- 12.6 Disconnected accounts, which are disconnected at the Lv connections, must further be checked within 3 days.
- 12.7 Where electricity accounts remain outstanding or unpaid after disconnection has been effected for more than two months, the account must be handed over to the debt collectors for collection and / or legal action to the attorneys.
- 12.8 The customers handed over for collection must make further arrangements at the attorneys and / or debt collectors, for the arrear accounts. Current monthly accounts must still be paid to the Municipality directly.
- 12.9 In a case where premises are tenant occupied and tenant fails to pay the owner is liable.

13 SUNDRY DEBTORS

13.1 Credit Control Procedures and Mechanisms

- 13.1.1 In respect of leases and sale of the Municipal land or assets the accounts are payable in accordance with the provisions of the relevant clauses of the Memorandum of Agreements.
- 13.1.2 In respect of sundry debtors, the accounts are opened and raised as soon as the relevant information is received and payable within 30 days of rendering the account.

- 13.1.3 A final demand is to be issued in respect of all accounts reflecting an amount outstanding for more than 60 days.

13.2 Debt Collection Procedure and Mechanism

- 13.2.1 All arrear accounts in respect of the sale of erven are dealt with in accordance with the applicable clause in the Sale Agreements.

- 13.2.2 Other sundry debtor's accounts, which still reflect on arrears amount after 90 days, are to be handed over for collection to Council attorneys.

- 13.2.3 Economic viability must be determined before sundry debtors accounts in arrears are handed over to the Council attorneys.

13.3 Extension of Time of Payment

- 13.3.1 Suitable and Acceptable agreement or arrangement must be entered into with the department of finance in writing for the extension for payment on merit.

14. WRITING OFF DOUBTFUL DEBTS

- 14.1 All requests to write-off debt in respect of rates must be presented as individual items to the official who has delegated authority to authorise such debt to be written off.

- 14.2 In respect of other debt, schedules indicating the debtor account number, the debtor's name, the physical address in respect of which the debt was raised, address, erf number, if applicable, amount per account category as well as a reason to write-off the amount must be compiled.

- 14.3 Notwithstanding the above, the Municipality or its authorised officials are under no obligation to write-off any particular debt and must always retain sole discretion to do so.

15. CLEARANCE CERTIFICATES

- 15.1 Before any property can be transferred from one owner to another all arrears on rate and services must be payable after which the Municipality must issue a Rates clearance Certificate as proof that all rates and services have been paid in full.
- 15.2 The Municipality requires a deposit of the cost of three months rates of the relevance of a service prior to the issuing of such a clearance certificate.

16. MUNICIPAL COUNCILLORS AND EMPLOYEES

- 16.1 A Municipal councillor or Municipal employee may not be in arrears with the Council for rates and/or service charges for a period longer than three months, and the Council may deduct any outstanding amounts from the salary of such member of staff after this period, in accordance with item 10 of Schedule 2 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

17. Persons and Business who tender to the Municipality

- 17.1. The Procurement Policy and Tender Conditions of the Municipality will include the following:
- (i) When inviting tenders for the provision of services or delivery of goods, potential contractors may submit tenders subject to a condition that consideration and evaluation thereof will necessitate that the tenderer obtain from the municipality a certificate stating that all relevant municipal accounts owing by the tenderer and/or its directors, members in the case of a close corporation, owners or partners have been paid or that suitable arrangements (which include the right to set off in the event of non-compliance) have been made for payment of any arrears;
 - (ii) No tender will be allocated to a person/contractor until a suitable arrangement for the repayment of arrears, has been made. No further debt may accrue during contract period;
 - (iii) A condition allowing the municipality to deduct any moneys owing to the Municipality from contract payments.

18. COMPLIANCE AND ENFORCEMENT

- a) Violation of or non-compliance with this policy must give a just cause of disciplinary steps to be taken.
- b) It must be the responsibility of the Chief Financial Officer to enforce compliance with this policy.

19. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

20. POLICY ADOPTION

This policy has been considered and approved by the **COUNCIL OF UMUZIWABANTU LOCAL MUNICIPALITY** as follows:

Resolution No:.....

Approval Date:.....